

Tuesday, 14 April 2020

## The squeaky wheel gets the oil

The biggest news during the Easter break was Russia and Saudi Arabia putting aside their differences, paving the way for the Organisation of Petroleum Exporting Countries (OPEC) to announce their biggest production cut in history of 9.7 million barrels per day. This production cut is equivalent to around 10% of the world's oil supply. However, the announcement was overshadowed by the drop in oil demand, which oil analysts expect could be as great as 30% due to the impact of COVID-19.

The world price of oil (using West Texas Intermediate) spiked on the announcement only briefly. Indeed, the cuts were brought about to try and revive the price of oil, which has declined 68% to a low of US\$20.09 on March 30. This is from its 2020 high of US\$63.27 a barrel struck on January 6.

For Australians, social distancing and other government restrictions necessary to contain the virus mean there are fewer drivers on the road. However, when we are filling up at the pump, the weaker world oil price means it costs much less to fill up our tanks. The sluggish price for oil means prices at the bowser could stay low for longer.

In terms of data, the latest business survey results were released earlier today and employment data for March will be closely eyed on Thursday when it is published. Consumer confidence is also slated for release tomorrow.

The business survey showed business confidence sunk to a record low of -66 in April, from -2 in March. It compares to a low of -30 recorded during the global financial crisis (GFC) and compares to the historical series average of 5. April's result is truly an incredibly weak result and reflects the impact on businesses throughout Australia of the coronavirus.

Stimulus measures from governments and the central bank have tried to ease the pain of the virus on businesses, but ultimately a peak and containment of the virus is needed to improve the operating environment for businesses.

The employment data on Thursday will be very keenly watched for clues on how high unemployment will rise during this crisis. Our central forecast for the peak in the unemployment rate to be 9% later this year, but we stress it comes with a higher degree of variability than usual. The nature of this external shock on the economy is unprecedented and still evolving, making it hard to fully quantify the effects. In terms of a range for the peak in the unemployment rate, we estimate it will be 7.8%-14%. Our forecasts would have been higher without the government's JobKeeper policy.

Over this week, we are also expecting more announcements around the code of conduct on rental relief for commercial and residential tenants from individual State and territory governments. Last week on April 7, the Federal government introduced a mandatory code of conduct that applies to all landlords and tenants affected by the outbreak of COVID-19. At its core is the idea that tenants and landlords must work together in "good faith" to get through the temporary shock of COVID-19. The code applies to tenants with a turnover of \$50 million or less and where a tenant is

participating in or will participate in the JobKeeper program.

Furthermore, the code of conduct stipulates that rent relief should be proportionate to reduction in turnover and should comprise waivers and deferrals. Waivers must account for at least 50% of the reduction and any deferred rental repayments must be amortised over the balance of the lease term, or no less than 24 months. Further, landlords cannot terminate a lease on the basis of non-payment nor dip into bonds to cover unpaid rent.

The code is to be managed and legislated by the States and territories. The NSW and QLD governments have respectively announced \$440 million and \$400 million coronavirus rental assistance packages in the wake of the Federal government's announcement. Other State and territory governments are expected to follow this week with announcements.

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## Forecasts

*Please note that due to the unprecedented nature of the coronavirus's impact on the economy and the rapid change of developments, there is greater than usual variability attached to these forecasts.*

End Period:	2020				2021	
	Close (Apr 9)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)
<b>Aust. Interest Rates:</b>						
RBA Cash Rate, %	0.25	0.25	0.25	0.25	0.25	0.25
90 Day BBSW, %	0.21	0.25	0.25	0.25	0.30	0.35
3 Year Swap, %	0.39	0.35	0.35	0.40	0.40	0.45
10 Year Bond, %	0.91	0.75	0.75	0.80	0.85	0.95
<b>US Interest Rates:</b>						
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.77	0.60	0.65	0.70	0.75	0.80
<b>USD Exchange Rates:</b>						
AUD-USD	0.6382	0.62	0.64	0.66	0.68	0.68
USD-JPY	107.77	107	105	106	107	107
EUR-USD	1.0914	1.07	1.06	1.06	1.07	1.08
GBP-USD	1.2515	1.22	1.23	1.24	1.25	1.25
NZD-USD	0.6088	0.60	0.62	0.64	0.65	0.65
<b>AUD Exchange Rates:</b>						
AUD-USD	0.6382	0.62	0.64	0.66	0.68	0.68
AUD-EUR	0.5848	0.58	0.60	0.62	0.64	0.63
AUD-JPY	68.79	66.3	67.2	70.0	72.8	72.8
AUD-GBP	0.5099	0.51	0.52	0.53	0.54	0.54
AUD-NZD	1.0483	1.03	1.03	1.03	1.05	1.05

	2018	2019 (f)	2020 (f)
GDP, %	2.2	2.2	-5.0
CPI (Headline), %	1.8	1.8	0.9
CPI (Trimmed mean), %	1.8	1.6	1.5
Unemployment Rate, %	5.0	5.2	7.3
Wages Growth, %	2.3	2.2	1.8

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

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